

LESLIE COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2007

LESLIE COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

For the Year Ended June 30, 2007

	<u>Pages</u>
Independent Auditor's Report.....	1 - 2
Management's Discussion and Analysis.....	3 - 8
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Assets	9
Statement of Activities	10 - 11
Fund Financial Statements	
Balance Sheet – Governmental Funds	12
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets.....	13
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.....	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Funds	17
Statement of Net Assets – Proprietary Funds	18
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	19
Statement of Cash Flows – Proprietary Funds.....	20
Statement of Fiduciary Net Assets – Activity Funds	21
Notes to the Basic Financial Statements	22 - 40

LESLIE COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

For the Year Ended June 30, 2007

	<u>Pages</u>
Supplementary Information:	
Combining Statements – Nonmajor Funds:	
Combining Balance Sheet – Nonmajor Governmental Funds	41
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	42
Statement of Revenues, Expenditures and Changes in Fund Balance – Leslie County High School Activity Fund	43
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Other School Activity Funds	44 - 45
Schedule of Expenditures of Federal Awards	46 - 48
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	49 - 50
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	51 - 52
Summary Schedule of Prior Audit Findings	53
Schedule of Findings and Questioned Costs	54 - 55
Management Letter	56 - 59

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INDEPENDENT AUDITOR'S REPORT

State Committee For School District Audits
Members of Leslie County Board of Education
Hyden, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Leslie County School District, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Leslie County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Leslie County School District as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2007, on our consideration of Leslie County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an

opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 8, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Leslie County School District's basic financial statements. The combining and individual nonmajor fund financial statements and other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Leslie County School District. The combining and individual nonmajor fund financial statements, other supplemental information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied to the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in blue ink, appearing to read "Chris Gooch", with a stylized, flowing script.

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 5, 2007

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2007

As management of the Leslie County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

- The beginning cash balance, including activity funds, for the District was \$342,320. The ending cash balance, including activity funds, for the District was \$2,498,701.
- Total federal expenditures for year ended June 30, 2007 was \$2,853,455 and for June 30, 2006 were \$3,070,891. Of this amount \$1,192,095 and \$1,087,156 was for the Title I program and \$712,468 and \$677,528 was for food service program expenditures in fiscal year ended 2007 and 2006, respectively.
- Interest revenue totaled \$81,019 for the current year ended and for the prior year the total interest revenue was \$149,150.
- The District's total long-term debt reflected a net increase of \$609,577.
- The Leslie County School District Finance Corporation issued \$1,520,000 school building revenue bonds dated September 1, 2007 for elementary school construction site work.
- Big Creek Elementary School closed during the year ended June 30, 2007.
- Beech Fork Elementary School was sold for \$318,000 during the year ended June 30, 2007.
- Total general fund revenue was \$11,304,595, exclusive of on behalf state payments totaling \$2,740,938 consisting primarily of state program (SEEK), property, utilities and motor vehicle taxes. Excluding on behalf payments, there were \$10,116,119 in general fund expenditures. For 2006, excluding on-behalf total general fund revenue was \$10,990,556 and total general fund expenditures where \$11,976,513.

OVERVIEW OF FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2007

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds include activity funds. Proprietary funds include the school food service, daycare and preschool funds. All other activities are reported under governmental funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. As of June 30, 2007, assets exceeded liabilities by \$9,590,862.

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2007

The greatest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and ongoing construction projects, where applicable), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net assets for the year ended June 30, 2007

Following are comparisons of governmental net assets:

	At June 30,	
	<u>2007</u>	<u>2006</u>
Current Assets	3,261,031	1,482,261
Noncurrent Assets	<u>13,535,856</u>	<u>13,663,027</u>
<u>Total Assets</u>	<u>16,796,887</u>	<u>15,145,288</u>
Current Liabilities	1,925,101	1,238,119
Noncurrent Liabilities	<u>5,280,924</u>	<u>3,348,748</u>
<u>Total Liabilities</u>	<u>7,206,025</u>	<u>4,586,867</u>
- Net Assets -		
Investment in Capital Assets (net of debt)	8,002,714	9,710,551
Restricted	765,895	767,724
Unreserved Fund Balance	<u>822,253</u>	<u>80,146</u>
<u>Total Net Assets</u>	<u>9,590,862</u>	<u>10,558,421</u>

The comparison reflects the following:

- Increase in current assets reflects a \$2,164,596 increase in cash and cash equivalents noting capital projects funds cash increase of \$744,310.

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2007

- Increase in current liabilities is primarily a result of an increase in accounts payable of \$516,663 from June 30, 2006 to June 30, 2007.
- Noncurrent liability changes reflect an increase of \$1,640,801 in debt principal for prior period SFCC not previously recorded, an increase in debt principal of \$1,520,000 for the September 2006 bond issue and a reduction of \$910,423 decrease in bond principal debt outstanding.

Comments on budget comparisons

The following table presents a comparison of budget to actual for the general fund:

	<u>Final</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
From local sources			
Taxes	1,982,890	2,339,578	356,688
Earnings on investments	45,000	117,055	72,055
Other local revenue	-	123,577	123,577
Intergovernmental - state	8,738,978	11,404,694	2,665,716
Intergovernmental - indirect federal	17,000	60,629	43,629
<u>Total revenues</u>	<u>10,783,868</u>	<u>14,045,533</u>	<u>3,261,665</u>
Expenditures:			
Instructional	5,120,927	7,319,046	(2,198,119)
Student support services	663,421	685,803	(22,382)
Staff support services	571,056	719,650	(148,594)
District administration	345,106	251,490	93,616
School administration	804,792	939,148	(134,356)
Business support	235,808	288,565	(52,757)
Plant operation and management	1,229,267	1,352,198	(122,931)
Student transportation	1,437,856	1,291,058	146,798
Community service activities	6,074	4,137	1,937
Employee benefits	267,062	6,462	260,600
Contingency	598,317	-	598,317
<u>Total expenditures</u>	<u>11,279,686</u>	<u>12,857,557</u>	<u>(1,577,871)</u>
Excess (deficit) of revenue over <u>expenditures</u>	<u>(495,818)</u>	<u>1,187,976</u>	<u>1,683,794</u>

- Actual revenues and expenditures reflect unbudgeted state on-behalf payments for retirement, health and life insurance and technical education in the amount of \$2,740,938.
- Actual utility tax revenues exceeded budget expectation by \$183,683.

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2007

- Unbudgeted unmined mineral tax was received in the fiscal year totaling \$479,057.

The following table presents a summary comparison of statement of activities for the fiscal years ended June 30, 2007 and 2006:

	At June 30,	
	<u>2007</u>	<u>2006</u>
Revenues:		
Local revenue sources	3,343,244	2,844,999
State revenue sources	14,531,631	13,273,388
Federal revenue	<u>2,125,415</u>	<u>3,060,287</u>
<u>Total revenues</u>	<u>20,000,290</u>	<u>19,178,674</u>
Expenses:		
Instruction	10,056,983	10,022,805
Student support services	942,421	978,006
Instructional support	1,245,686	1,147,864
District administration	254,075	589,132
School administration	942,401	1,056,744
Business support	330,403	334,189
Plant operation and management	1,878,353	2,374,252
Student transportation	1,838,382	1,804,145
Central office support	21,788	5,316
Community support	301,007	317,806
Food service operations	1,118,491	1,041,791
Day care operations	50,805	64,917
Interest on long-term debt	261,944	155,390
Employee Benefits	<u>6,462</u>	<u>133,423</u>
<u>Total expenses</u>	<u>19,249,201</u>	<u>20,025,780</u>
<u>Revenues in excess of expenses</u>	<u>751,089</u>	<u>(847,106)</u>

- Local tax revenue increased \$330,074.
- The statement of activities reflect line item increases in project revenue from the previous year.

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2007

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$598,317 in contingency (5.3%).

Results of the current fiscal year and recent historical trends for the District were taken into account when preparing the subsequent year budget. No significant changes in revenue or expense items are foreseeable. The District's tax rates and tax base remain effectively the same. The District has assessed and considered underlying economical and funding factors at the federal, state, and local level and other non-financial areas including demographics, local economy and risk of loss of student population that may have a significant impact on the financial statements when preparing subsequent years budgets.

Questions regarding this report should be directed to the Superintendent or the Finance Officer at (606) 672-2397.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF NET ASSETSAt June 30, 2007

	Governmental Activities	Business-type Activities	Total
Assets:			
- Current Assets -			
Cash and cash equivalents	2,238,457	115,464	2,353,921
Accounts receivable:			
Taxes - current	100,008	-	100,008
Taxes - delinquent	5,274	-	5,274
Other	151,270	327	151,597
Intergovernmental - State	620,396	-	620,396
Intergovernmental - Indirect Federal	13,083	8,098	21,181
Inventories	-	8,654	8,654
<u>Total current assets</u>	<u>3,128,488</u>	<u>132,543</u>	<u>3,261,031</u>
- Noncurrent Assets -			
Capital assets	22,264,866	1,714,348	23,979,214
Less: accumulated depreciation	(9,571,786)	(871,572)	(10,443,358)
<u>Total noncurrent assets</u>	<u>12,693,080</u>	<u>842,776</u>	<u>13,535,856</u>
<u>Total assets</u>	<u>15,821,568</u>	<u>975,319</u>	<u>16,796,887</u>
Liabilities:			
- Current liabilities -			
Accounts payable	602,156	19,535	621,691
Current portion of accumulated sick leave	61,492	-	61,492
Deferred revenues	1,320	-	1,320
Current portion of bond/lease obligations	988,380	-	988,380
Interest payable	252,218	-	252,218
<u>Total current liabilities</u>	<u>1,905,566</u>	<u>19,535</u>	<u>1,925,101</u>
- Noncurrent liabilities -			
Noncurrent portion of bond/lease obligations	5,059,084	-	5,059,084
Noncurrent portion of accrued sick leave	221,840	-	221,840
<u>Total noncurrent liabilities</u>	<u>5,280,924</u>	<u>-</u>	<u>5,280,924</u>
<u>Total liabilities</u>	<u>7,186,490</u>	<u>19,535</u>	<u>7,206,025</u>
Net assets:			
Invested in capital assets, net of related debt	7,159,938	842,776	8,002,714
Restricted for:			
KFSCC escrow	757,241	-	757,241
Other	-	8,654	8,654
Unrestricted	717,899	104,354	822,253
<u>Total net assets</u>	<u>8,635,078</u>	<u>955,784</u>	<u>9,590,862</u>
<u>Total liabilities and net assets</u>	<u>15,821,568</u>	<u>975,319</u>	<u>16,796,887</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF ACTIVITIESFor the Year Ended June 30, 2007

		Program Revenues		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions
	<u>Expenses</u>			
FUNCTIONS/PROGRAMS:				
- Governmental Activities -				
Instructional	10,056,983	-	(4,307,828)	-
Support services:				
Student	942,421	-	(347,275)	-
Instructional staff	1,245,686	-	(646,898)	-
District administration	254,075	-	(23,006)	-
School administration	942,401	-	(161,097)	-
Business support	330,403	-	(94,998)	-
Plant operation and management	1,878,353	-	(157,646)	-
Student transportation	1,838,382	-	(347,430)	-
Central office operations	21,788	-	(15,000)	-
Community services operations	301,007	-	(296,467)	-
Employee benefits	6,462	-	-	-
Interest on long-term debt	261,944	-	-	-
<u>Total governmental activities</u>	<u>18,079,905</u>	<u>-</u>	<u>(6,397,645)</u>	<u>-</u>
- Business-type Activities -				
Food service	1,118,491	(313,645)	(756,542)	-
Day care	50,805	(38,571)	-	-
<u>Total business-type activities</u>	<u>1,169,296</u>	<u>(352,216)</u>	<u>(756,542)</u>	<u>-</u>
<u>Total primary government</u>	<u>19,249,201</u>	<u>(352,216)</u>	<u>(7,154,187)</u>	<u>-</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES (continued)
For the Year Ended June 30, 2007

	<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
	(5,749,155)	-	(5,749,155)
	(595,146)	-	(595,146)
	(598,788)	-	(598,788)
	(231,069)	-	(231,069)
	(781,304)	-	(781,304)
	(235,405)	-	(235,405)
	(1,720,707)	-	(1,720,707)
	(1,490,952)	-	(1,490,952)
	(6,788)	-	(6,788)
	(4,540)	-	(4,540)
	(6,462)	-	(6,462)
	<u>(261,944)</u>	<u>-</u>	<u>(261,944)</u>
	<u>(11,682,260)</u>	<u>-</u>	<u>(11,682,260)</u>
	-	(48,304)	(48,304)
	<u>-</u>	<u>(12,234)</u>	<u>(12,234)</u>
	-	(60,538)	(60,538)
	<u>(11,682,260)</u>	<u>(60,538)</u>	<u>(11,742,798)</u>
General revenues:			
Taxes	2,556,890	-	2,556,890
Investment earnings	143,359	5,791	149,150
State and formula grants	9,502,859	-	9,502,859
Miscellaneous	<u>282,090</u>	<u>2,898</u>	<u>284,988</u>
<u>Total general revenues</u>	<u>12,485,198</u>	<u>8,689</u>	<u>12,493,887</u>
Change in net assets	802,938	(51,849)	751,089
Net assets - beginning (restated)	<u>7,832,140</u>	<u>1,007,633</u>	<u>8,839,773</u>
Net assets - ending	<u>8,635,078</u>	<u>955,784</u>	<u>9,590,862</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS

At June 30, 2007

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Other Gov't Funds</u>	<u>Total Gov't Funds</u>
Assets and resources:				
Cash and cash equivalents	1,279,197	(579,789)	1,539,049	2,238,457
Accounts receivable:				
Taxes - current	100,008	-	-	100,008
Taxes - delinquent	5,274	-	-	5,274
Other	151,270	-	-	151,270
Intergovernmental - State	-	620,396	-	620,396
Intergovernmental - Indirect Federal	<u>13,083</u>	<u>-</u>	<u>-</u>	<u>13,083</u>
 <u>Total assets and resources</u>	 <u>1,548,832</u>	 <u>40,607</u>	 <u>1,539,049</u>	 <u>3,128,488</u>
 Liabilities and fund balances:				
Accounts payable	116,177	39,287	446,692	602,156
Deferred revenue	<u>-</u>	<u>1,320</u>	<u>-</u>	<u>1,320</u>
 <u>Total liabilities</u>	 <u>116,177</u>	 <u>40,607</u>	 <u>446,692</u>	 <u>603,476</u>
 Fund balance				
Reserved for KFSCC escrow	-	-	757,241	757,241
Undesignated fund balance	<u>1,432,655</u>	<u>-</u>	<u>335,116</u>	<u>1,767,771</u>
 <u>Total fund balances</u>	 <u>1,432,655</u>	 <u>-</u>	 <u>1,092,357</u>	 <u>2,525,012</u>
 <u>Total liabilities and fund balances</u>	 <u>1,548,832</u>	 <u>40,607</u>	 <u>1,539,049</u>	 <u>3,128,488</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTRECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETSAt June 30, 2007

Total fund balance per fund financial statements	2,525,012
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but are reported in the statement of net assets.	12,693,080
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Certain liabilities (such as bonds payable, accrued sick leave and accrued interest) are not reported in this fund financial statement because they are not due and payable, but are presented in the statement of net assets.	<u>(6,583,014)</u>
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Net assets for governmental activities	<u><u>8,635,078</u></u>
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See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2007

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Other Gov't Funds</u>	<u>Total Gov't Funds</u>
Revenues:				
From local sources:				
Taxes	2,339,578	-	217,312	2,556,890
Earnings on investments	117,055	-	26,304	143,359
Other local revenue	123,577	-	-	123,577
Intergovernmental - state	11,404,694	1,542,600	827,795	13,775,089
Intergovernmental - indirect federal	60,629	2,064,786	-	2,125,415
	<u>14,045,533</u>	<u>3,607,386</u>	<u>1,071,411</u>	<u>18,724,330</u>
<u>Total revenues</u>	<u>14,045,533</u>	<u>3,607,386</u>	<u>1,071,411</u>	<u>18,724,330</u>
Expenditures:				
Instructional	7,319,046	2,412,247	-	9,731,293
Student support services	685,803	204,386	-	890,189
Staff support services	719,650	488,360	-	1,208,010
District administration	251,490	-	-	251,490
School administration	939,148	-	-	939,148
Business support	288,565	38,682	-	327,247
Plant operations and management	1,352,198	44,449	56,300	1,452,947
Student transportation	1,291,058	157,116	-	1,448,174
Central office support services	-	15,000	-	15,000
Community service activities	4,137	296,467	-	300,604
Employee benefits	6,462	-	-	6,462
New building construction	-	-	1,344,183	1,344,183
Debt service:				
Principal	-	-	910,423	910,423
Interest	-	-	207,277	207,277
	<u>12,857,557</u>	<u>3,656,707</u>	<u>2,518,183</u>	<u>19,032,447</u>
<u>Total expenditures</u>	<u>12,857,557</u>	<u>3,656,707</u>	<u>2,518,183</u>	<u>19,032,447</u>
Excess (deficit) of revenues over expenditures	<u>1,187,976</u>	<u>(49,321)</u>	<u>(1,446,772)</u>	<u>(308,117)</u>
Other financing sources (uses):				
Bond proceeds	-	-	1,520,000	1,520,000
Operating transfers in	-	49,321	800,365	849,686
Operating transfers out	(273,711)	-	(575,975)	(849,686)
Gain (loss) on sale of assets	320,717	-	-	320,717
	<u>47,006</u>	<u>49,321</u>	<u>1,744,390</u>	<u>1,840,717</u>
<u>Total other financing sources (uses)</u>	<u>47,006</u>	<u>49,321</u>	<u>1,744,390</u>	<u>1,840,717</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	1,234,982	-	297,618	1,532,600
Fund balance - July 1, 2006	<u>197,673</u>	<u>-</u>	<u>794,739</u>	<u>992,412</u>
Fund balance - June 30, 2007	<u>1,432,655</u>	<u>-</u>	<u>1,092,357</u>	<u>2,525,012</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTRECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIESYear Ended June 30, 2007

Net change in total fund balances per fund financial statements	1,532,600
Amounts reported for governmental activities in the statement of activities differences:	
Capital outlays are reported as expenditures in the fund financial statements because they use current financial resources, but are presented as assets in the statement of activities and depreciated over their estimated useful economic lives. The difference is the amount by which depreciation exceeds capital outlays for the year.	(65,418)
Interest expense on long-term debt is recognized in the fund financial statements when paid and accrued in the government wide financial statement of activities.	(54,667)
Bond proceeds are recorded as other financing sources in the fund financial statements but are presented as a long term liability in the government wide financial statements.	(1,520,000)
Bond principal payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net assets.	<u>910,423</u>
Change in net assets of governmental activities	<u>802,938</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2007

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
Revenues:	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
From local sources:				
Taxes	2,038,302	1,982,890	2,339,578	356,688
Earnings on investments	45,000	45,000	117,055	72,055
Other local revenue	22,887	-	123,577	123,577
Intergovernmental - state	8,634,267	8,738,978	11,404,694	2,665,716
Intergovernmental - indirect federal	17,000	17,000	60,629	43,629
 <u>Total revenues</u>	 <u>10,757,456</u>	 <u>10,783,868</u>	 <u>14,045,533</u>	 <u>3,261,665</u>
 Expenditures:				
Instructional	5,125,603	5,120,927	7,319,046	(2,198,119)
Student support services	663,421	663,421	685,803	(22,382)
Staff support services	571,804	571,056	719,650	(148,594)
District administration	477,248	345,106	251,490	93,616
School administration	856,848	804,792	939,148	(134,356)
Business support	241,882	235,808	288,565	(52,757)
Plant operations and management	1,030,098	1,229,267	1,352,198	(122,931)
Student transportation	1,331,135	1,437,856	1,291,058	146,798
Community service activities	-	6,074	4,137	1,937
Employee benefits	267,062	267,062	6,462	260,600
Contingency	54,811	598,317	-	598,317
 <u>Total expenditures</u>	 <u>10,619,912</u>	 <u>11,279,686</u>	 <u>12,857,557</u>	 <u>(1,577,871)</u>
 Excess (deficit) of revenues over expenditures	 <u>137,544</u>	 <u>(495,818)</u>	 <u>1,187,976</u>	 <u>1,683,794</u>
 Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	(30,000)	(30,000)	(273,711)	(243,711)
Gain (loss) on sale of assets	10,000	328,000	320,717	(7,283)
 <u>Total other financing sources (uses)</u>	 <u>(20,000)</u>	 <u>298,000</u>	 <u>47,006</u>	 <u>(250,994)</u>
 Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	 117,544	 (197,818)	 1,234,982	 1,432,800
 Fund balance - July 1, 2006	 <u>(117,544)</u>	 <u>197,673</u>	 <u>197,673</u>	 <u>-</u>
 Fund balance - June 30, 2007	 <u>-</u>	 <u>(145)</u>	 <u>1,432,655</u>	 <u>1,432,800</u>

Note:

State on-behalf payments, \$2,740,938, reflected in actual are not budget line items.

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS**

For the Year Ended June 30, 2007

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
Revenues:	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Intergovernmental - state	1,431,614	1,503,944	1,542,600	38,656
Intergovernmental - indirect federal	2,112,328	2,192,917	2,064,786	(128,131)
<u>Total revenues</u>	<u>3,543,942</u>	<u>3,696,861</u>	<u>3,607,386</u>	<u>(89,475)</u>
Expenditures:				
Instructional	2,561,034	2,542,103	2,412,247	129,856
Student support services	154,497	205,048	204,386	662
Staff support services	257,763	362,763	488,360	(125,597)
School administration support services	-	1,000	-	1,000
Business support services	50,000	54,000	38,682	15,318
Plant operations and management	37,558	37,558	44,449	(6,891)
Student transportation	177,009	193,036	157,116	35,920
Central office support services	-	-	15,000	(15,000)
Community service activities	306,081	306,353	296,467	9,886
<u>Total expenditures</u>	<u>3,543,942</u>	<u>3,701,861</u>	<u>3,656,707</u>	<u>45,154</u>
Excess (deficit) of revenues over expenditures	<u>-</u>	<u>(5,000)</u>	<u>(49,321)</u>	<u>(44,321)</u>
Other financing sources (uses):				
Operating transfers in	-	-	49,321	49,321
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total other financing sources (uses)</u>	<u>-</u>	<u>-</u>	<u>49,321</u>	<u>49,321</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	<u>-</u>	<u>(5,000)</u>	<u>-</u>	<u>5,000</u>
Fund balance - July 1, 2006	<u>-</u>	<u>499,980</u>	<u>-</u>	<u>(499,980)</u>
Fund balance - June 30, 2007	<u>-</u>	<u>494,980</u>	<u>-</u>	<u>(494,980)</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS – PROPRIETARY FUNDS

At June 30, 2007

	<u>Food Service Fund</u>	<u>Day Care Fund</u>	<u>Total</u>
Assets:			
- Current Assets -			
Cash and cash equivalents	103,371	12,093	115,464
Accounts receivable:			
Intergovernmental - indirect Federal	8,098	-	8,098
Other	327	-	327
Inventories	<u>8,654</u>	<u>-</u>	<u>8,654</u>
<u>Total current assets</u>	<u>120,450</u>	<u>12,093</u>	<u>132,543</u>
- Noncurrent Assets -			
Capital assets	1,714,348	-	1,714,348
Less: accumulated depreciation	<u>(871,572)</u>	<u>-</u>	<u>(871,572)</u>
<u>Total noncurrent assets</u>	<u>842,776</u>	<u>-</u>	<u>842,776</u>
<u>Total assets</u>	<u>963,226</u>	<u>12,093</u>	<u>975,319</u>
Liabilities:			
- Current Liabilities -			
Accounts payable	<u>18,617</u>	<u>918</u>	<u>19,535</u>
<u>Total current liabilities</u>	<u>18,617</u>	<u>918</u>	<u>19,535</u>
Net assets:			
Investments in capital assets	842,776	-	842,776
Reserve for inventories	8,654	-	8,654
Unreserved	<u>93,179</u>	<u>11,175</u>	<u>104,354</u>
<u>Total net assets</u>	<u>944,609</u>	<u>11,175</u>	<u>955,784</u>
<u>Total liabilities and net assets</u>	<u>963,226</u>	<u>12,093</u>	<u>975,319</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS – PROPRIETARY FUNDS

For the Year Ended June 30, 2007

	<u>Food service Fund</u>	<u>Day care Fund</u>	<u>Total</u>
Operating revenues:			
Lunchroom sales	313,645	-	313,645
Tuition from individuals	<u>-</u>	<u>38,571</u>	<u>38,571</u>
 <u>Total operating revenues</u>	 <u>313,645</u>	 <u>38,571</u>	 <u>352,216</u>
 Operating expense:			
Salaries and wages	550,891	35,361	586,252
Contract services	39,779	1,940	41,719
Materials and supplies	477,349	13,356	490,705
Depreciation	49,621	-	49,621
Other operating expenses	<u>851</u>	<u>148</u>	<u>999</u>
 <u>Total operating expenses</u>	 <u>1,118,491</u>	 <u>50,805</u>	 <u>1,169,296</u>
 <u>Operating income (loss)</u>	 <u>(804,846)</u>	 <u>(12,234)</u>	 <u>(817,080)</u>
 Nonoperating Revenue/(Expense):			
Federal grants	648,244	-	648,244
State grants & onbehalf payments	108,298	-	108,298
Gain (loss) on asset disposal	2,898	-	2,898
Interest income	<u>5,791</u>	<u>-</u>	<u>5,791</u>
 <u>Total nonoperating revenue/(expense)</u>	 <u>765,231</u>	 <u>-</u>	 <u>765,231</u>
 <u>Net income (loss)</u>	 <u>(39,615)</u>	 <u>(12,234)</u>	 <u>(51,849)</u>
 Net assets, July 1, 2006	 <u>984,224</u>	 <u>23,409</u>	 <u>1,007,633</u>
 Net assets, June 30, 2007	 <u><u>944,609</u></u>	 <u><u>11,175</u></u>	 <u><u>955,784</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

For the Year Ended June 30, 2007

	<u>Food service Fund</u>	<u>Day care Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from:			
Lunchroom sales	313,318	38,571	351,889
Tuition	-	-	-
Cash paid to/for:			
Employees	(550,896)	(35,361)	(586,257)
Supplies/Contractual	(497,744)	(15,466)	(513,210)
Other activities	(851)	(148)	(999)
<u>Net cash provided by operating activities</u>	<u>(736,173)</u>	<u>(12,404)</u>	<u>(748,577)</u>
Cash flows from capital and related financing activities:			
Purchases of capital assets	(20,656)	-	(20,656)
Disposal of capital assets	2,898	-	2,898
Cash flows from investing activities:			
Interest income	(17,758)	-	(17,758)
Cash flows from financing activities:			
Federal grants	654,433	-	654,433
State grants	108,298	-	108,298
<u>Net cash provided by financing activities</u>	<u>762,731</u>	<u>-</u>	<u>762,731</u>
Net increase (decrease) in cash	11,698	(12,404)	(706)
Cash, beginning of year	91,673	24,497	116,170
Cash, end of year	103,371	12,093	115,464
Reconciliation of operating income (loss) to net cash provided (used) by operations:			
Operating income (loss)	(804,846)	(12,234)	(817,080)
Adjustments to reconcile operating income to cash provided (used) by operating activities:			
Depreciation	49,621	-	49,621
Changes in current assets/liabilities:			
Accounts receivable	(327)	-	(327)
Inventories	1,824	-	1,824
Accounts payable	17,555	(170)	17,385
Net cash provided by operating activities	<u>(736,173)</u>	<u>(12,404)</u>	<u>(748,577)</u>

Noncash transactions include \$95,529 on-behalf payments recognized for the school food service program.

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF FIDUCIARY NET ASSETS – ACTIVITY FUNDSAt June 30, 2007**Assets:**

Cash and cash equivalents	144,780
Accounts receivable	<u>-</u>
<u>Total assets</u>	<u>144,780</u>

Liabilities:

Accounts payable	602
Due to individual student activity account funds	<u>144,178</u>
<u>Total liabilities</u>	<u>144,780</u>

Net assets:

Permanently restricted for scholarships	<u>-</u>
<u>Total liabilities and net assets</u>	<u>144,780</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Leslie County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Leslie County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding sources entities. However, the Board is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence, operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Leslie County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment or the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Leslie County School District Finance Corporation – On September 11, 1990, the Leslie County, Kentucky, Board of Education resolved to authorize the establishment of the Leslie County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Leslie County Board of Education also comprise the Corporations’ Board of Directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation (continued)

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Grant Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- (D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)II. Proprietary Funds (Enterprise Funds)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). No amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

III. Fiduciary Fund Types (includes agency and trust funds)

The Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)Basis of Accounting (continued)

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and change in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenues.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2007, to finance the General Fund operations were \$.427 per \$100 valuation for real property, \$.427 per \$100 valuation for business personal property and \$.400 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

Compensated absence liabilities are recorded based on balances for classified and certified employees with twenty-seven or more years of experience at June 30, 2007.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. For government wide financial statements the long-term liability is reflected in the statement of net assets.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with and original maturity of 90 days or less, to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the bank balance of the District's cash and cash equivalents was \$3,404,468. Of the total cash balance, \$100,000 was covered by Federal depository insurance, \$2,813,906 was covered by a collateral agreement and collateral held by the pledging banks' trust departments in the District's name and the balance was uncollateralized. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2007 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Hyden Citizens Bank:		
General Operating Account	3,234,817	2,353,651
Big Creek Elementary	17,235	-
Hayes Lewis Elementary	15,163	15,163
Hyden Elementary	8,799	8,090
Leslie County High School	68,811	63,140
Leslie County Middle School	10,409	9,253
Stinnett Elementary	33,986	33,886
WB Muncy Elementary	15,248	15,248
Cash registers - lunchrooms	-	270
<u>Total</u>	<u>3,404,468</u>	<u>2,498,701</u>

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE C – CASH AND CASH EQUIVALENTS (continued)

Custodial credit risk is the risk that in event of bank failure the deposits may not be returned or that the District may not recover collateral securities. The District requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not retain any long-term investments. Concentrations of credit risk are the risk of loss attributed to the magnitude of the District's investments in a single issuer. All of the organization's cash is held at a local financial institution. Foreign currency risk is the risk of changes in exchange rates affecting foreign investments. The District does not hold any foreign investments.

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the School District Finance Corporation aggregating \$6,037,462.

The original amount of each issue, the issue date and interest rates are summarized as follows:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
Rev Series September 1996	\$ 240,000	5.00% - 5.375%
KISTA Series April 1999	270,000	3.70% - 4.45%
KISTA Series January 2000	469,445	4.30% - 5.30%
KISTA Series May 2000	340,000	4.75% - 5.90%
KISTA Series December 2000	199,156	4.15% - 4.60%
1998A Refunding Series	900,000	4.00% - 4.50%
1998B Refunding Series	6,175,000	4.00% - 4.50%
KISTA Series 2004	837,401	1.00% - 3.50%
KISTA Series 2005	233,280	3.00% - 3.625%
Rev Series September 2006	1,520,000	3.75% - 4.00%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund and Building Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Leslie County Fiscal Court and the School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 1990, the District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations for the district, including amounts to be paid by the Commission, at June 30, 2007, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Leslie County School District</u>		<u>Kentucky School Facilities Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2007 - 08	687,763	127,028	300,617	125,190	1,240,598
2008 - 09	716,757	97,888	317,697	111,663	1,244,005
2009 - 10	705,465	68,087	330,236	97,471	1,201,259
2010 - 11	676,909	40,298	355,308	82,652	1,155,167
2011 - 12	113,574	11,439	94,000	66,756	285,769
2012 - 13	100,978	7,762	101,000	62,479	272,219
2013 - 14	99,838	4,304	103,000	57,993	265,135
2014 - 15	22,322	809	110,000	53,308	186,439
2015 - 16			113,000	48,364	161,364
2016 - 17			115,000	43,288	158,288
2017 - 18			104,000	38,461	142,461
2018 - 19			111,000	33,746	144,746
2019 - 20			114,000	28,756	142,756
2020 - 21			85,000	24,500	109,500
2021 - 22			90,000	21,000	111,000
2022 - 23			95,000	17,300	112,300
2023 - 24			95,000	13,500	108,500
2024 - 25			100,000	9,600	109,600
2025 - 26			105,000	5,500	110,500
2026 - 27	-	-	85,000	1,700	86,700
<u>Totals</u>	<u>3,123,606</u>	<u>357,615</u>	<u>2,923,858</u>	<u>943,227</u>	<u>7,348,306</u>

Following are changes in long-term debt:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2007</u>
Revenue Series Sept 1996	160,000	-	10,000	150,000
KISTA Series April 1999	94,000	-	30,000	64,000
KISTA Series January 2000	196,605	-	50,154	146,451
KISTA Series May 2000	305,000	-	16,000	289,000
KISTA Series December 2000	103,101	-	20,274	82,827
1998A Refunding Series	415,000	-	100,000	315,000
1998B Refunding Series	3,300,000	-	580,000	2,720,000
KISTA Series 2004	654,695	-	78,606	576,089
KISTA Series 2005	209,486	-	25,389	184,097
Revenue Series Sept 2006	-	1,520,000	-	1,520,000
<u>Total</u>	<u>5,437,887</u>	<u>1,520,000</u>	<u>910,423</u>	<u>6,047,464</u>

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

The Leslie County School District Finance Corporation issued \$1,520,000 school building revenue bonds dated September 1, 2006. \$1,471,736.47 was deposited into the Leslie County School District Construction Fund for elementary school construction site work and the balance was used to pay bond issue costs. The interest costs to the District range from 3.75% to 4.00%. This issue is 100% participating by the Kentucky School Facilities Construction Commission. No direct principal or interest payments are due from the District.

NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007 was as follows:

	Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2007</u>
<u>Governmental Activities</u>				
Land	199,457	-	10,400	189,057
Land improvements	472,999	-	69,110	403,889
Buildings and improvements	17,094,814	460,570	672,232	16,883,152
Technology equipment	1,867,897	382,770	876,532	1,374,135
Vehicles	3,212,133		277,412	2,934,721
General equipment	<u>502,402</u>	<u>14,396</u>	<u>36,886</u>	<u>479,912</u>
<u>Totals at historical cost</u>	<u>23,349,702</u>	<u>857,736</u>	<u>1,942,572</u>	<u>22,264,866</u>
Less: accumulated depreciation				
Land and improvements	401,728	7,456	67,838	341,346
Buildings and improvements	6,025,241	400,564	573,840	5,851,965
Technology equipment	1,666,658	153,944	846,796	973,806
Vehicles	2,072,494	209,366	260,706	2,021,154
General equipment	<u>389,397</u>	<u>25,306</u>	<u>31,188</u>	<u>383,515</u>
<u>Total accumulated depreciation</u>	<u>10,555,518</u>	<u>796,636</u>	<u>1,780,368</u>	<u>9,571,786</u>
Governmental Activities				
<u>Capital Assets - Net</u>	<u>12,794,184</u>	<u>(61,100)</u>	<u>162,204</u>	<u>12,693,080</u>

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE E – CAPITAL ASSETS (continued)

<u>Business-Type Activities</u>	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Buildings and improvements	1,141,825	-	-	1,141,825
Food service and equipment	537,917	18,647	-	556,564
Technology equipment	13,950	2,009	-	15,959
<u>Totals at historical cost</u>	<u>1,693,692</u>	<u>20,656</u>	<u>-</u>	<u>1,714,348</u>
Less: accumulated depreciation				
Buildings and improvements	412,295	22,693	-	434,988
Food service and equipment	407,529	17,988	-	425,517
Technology equipment	5,025	8,940	2,898	11,067
<u>Total accumulated depreciation</u>	<u>824,849</u>	<u>49,621</u>	<u>2,898</u>	<u>871,572</u>
Business-Type Activities				
<u>Capital Assets - Net</u>	<u>868,843</u>	<u>(28,965)</u>	<u>(2,898)</u>	<u>842,776</u>

Depreciation expense was allocated to governmental and proprietary functions as follows:

Governmental functions:

Instructional	55,233
Student support services	52,232
Instructional staff support	37,676
District administration	2,585
School administration	3,253
Business support services	3,156
Plant operations and management	425,406
Student transportation	209,904
Central office support	6,788
Community service activities	403

Total depreciation expense - Governmental functions	<u>796,636</u>
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Proprietary functions:

Food service operations	<u>49,621</u>
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LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE F – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for equipment provide the minimum future rental payments as of June 30, 2007, as follows:

Year ending June 30:	
2008	124,709
2009	127,707
2010	33,572
2011	17,993
2012	17,993
Thereafter	<u>2,999</u>
<u>Total</u>	<u>324,973</u>

NOTE G – RETIREMENT PLANS

Kentucky Teachers Retirement System:

Plan Description – The Leslie County Public Schools contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' System, 479 Versailles Road, Frankfort, Kentucky 40601.

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

The Leslie County Public School District's total payroll for the year was \$10,642,018. The payroll for employees covered under KTRS was \$8,558,029. For the year ended June 30, 2007, the Commonwealth contributed \$973,002 to KTRS for the benefit of the participating employees. The School District's contributions to KTRS for the year ending June 30, 2007 were \$148,528, which represents those employees covered by federal programs.

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE G – RETIREMENT PLANS (continued)

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the plan is provided through payroll withholdings of 5.00% and a district contribution of 13.19% of the employee's total compensation subject to contributions. Total payroll for employee's covered under CERS was \$2,465,044.

The contribution requirement for CERS for the year ended June 30, 2007 was \$431,348 which consisted of \$312,246 from the District and \$119,102 from the employees.

Following is a summary of contributions paid on-behalf of the employees for the past three years:

Year Ended	KTRS		<u>CERS</u>
	<u>June 30,</u>	<u>District</u>	<u>State</u>
2007		148,528	973,002
2006		150,028	1,023,107
2005		149,555	943,055

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to-date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	KTRS	CERS
	<u>as of June 30, 2006</u>	<u>as of June 30, 2006</u>
	(in millions of dollars)	(in millions of dollars)
Actuarial accrued liabilities	20,324.7	8,199.7
Actuarial value of assets	<u>14,857.6</u>	<u>6,678.0</u>
Unfunded (overfunded) actuarial accrued liabilities	<u>5,467.1</u>	<u>1,521.7</u>

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE G – RETIREMENT PLANS (continued)

Historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2006 comprehensive annual financial reports.

As the Board is only one of several employers participating in the plan, it is not practical to determine the Board's portion of the unfunded past service cost or the vested benefits of the Board's portion of the plan assets.

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE I – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE J – LITIGATION

The District is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate a material effect on the combined financial statements as a result of threatened, pending or ongoing litigation.

NOTE K – RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Insurance for worker's compensation, errors and omissions, educator's legal liability, property (including vehicles) and general liability is carried through various agencies. Contributions to Workers' Compensation Insurance are based on premium rates established with the excess insurance carrier, subject to claims, experience modifications and a group discount amount.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE K – RISK MANAGEMENT (continued)

The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L – DEFICIT OPERATING/FUND BALANCES

The following funds had deficit balances at June 30, 2007:

None

The following funds had expenditures in excess of revenues at June 30, 2007:

Daycare Fund	12,234
Big Creek Elementary Activity Fund	27,691
Stinnett	1,663
School Food Service Fund	39,615

NOTE M – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school District at risk for a substantial loss (contingency).

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Debt Service Fund	Retire debt	224,390
Capital Outlay Fund	Debt Service Fund	Retire debt	117,600
FSPK Fund	Debt Service Fund	Retire debt	458,375
General Fund	Special Revenue Fund	Technology match	<u>49,321</u>
			<u>849,686</u>

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE O – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2007 were as follows:

None

NOTE P – ANNUAL FINANCIAL REPORT DIFFERENCES

The following is a reconciliation of the June 30, 2007, fund balances/retained earnings reported by the Board to the Kentucky Department of Education with that shown in the accompanying fund financial statements:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Proprietary Funds</u>
Fund Balance/Retained Earnings as reported to the Department of Education	1,217,013	(19,461)	1,238,372	104,311
<u>Adjustment to Fund Balance/Retained Earnings</u>				
(1) To reclassify & adjust cash	(24,375)	-	-	(289)
(2) To adjust accounts receivable	269,635	19,461	-	8,426
(3) To adjust accounts payable	(29,618)	-	(146,015)	2,389
(4) To adjust inventory	-	-	-	(1,829)
(5) To record net fixed assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>842,776</u>
Fund Balance/Retained Earnings per fund financial statements at June 30, 2007	<u>1,432,655</u>	<u>-</u>	<u>1,092,357</u>	<u>955,784</u>

NOTE Q – ON-BEHALF PAYMENTS

The following payments made by the state on behalf of employees of the District and for the benefit of the District are recognized in the government-wide financial statements as additional revenue and expenditures for the year ended June 30, 2007:

Kentucky Teacher's Retirement System	973,002
Health Insurance	1,489,381
Life Insurance	7,091
Technical Education	<u>366,993</u>
<u>Total</u>	<u>2,836,467</u>

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2007NOTE R – PRIOR PERIOD RESTATEMENT

The following restatements were made to government-wide beginning net assets at July 1, 2006:

Participation bond principal and interest assumed directly by the Kentucky School Facilities Construction Commission were not reported as liabilities on the statement of net assets at June 30, 2006 for the following debt service issues:

	September 1996	May 2000	1998B Series	Total
Interest payable - current	8,310	16,893	52,644	77,847
Short-term debt principal	10,000	16,000	213,488	239,488
Long-term debt principal	<u>150,000</u>	<u>289,000</u>	<u>962,313</u>	<u>1,401,313</u>
Decrease in net assets	168,310	321,893	1,228,445	1,718,648
Net assets as previously reported				<u>(9,550,788)</u>
Net assets, restated				<u><u>(7,832,140)</u></u>

LESLIE COUNTY SCHOOL DISTRICTCOMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDSAt June 30, 2007

	<u>SEEK Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Construction Fund</u>	<u>Debt Service Funds</u>	<u>Total</u>
Asset and resources:					
Cash and cash equivalents	<u>391,014</u>	<u>499,222</u>	<u>648,813</u>	<u>-</u>	<u>1,539,049</u>
Total assets and resources	<u>391,014</u>	<u>499,222</u>	<u>648,813</u>	<u>-</u>	<u>1,539,049</u>
Liabilities and fund balances:					
Accounts payable	<u>-</u>	<u>-</u>	<u>446,692</u>	<u>-</u>	<u>446,692</u>
- Fund balances -					
Restricted for KFSCC escrow	<u>353,516</u>	<u>403,725</u>	<u>-</u>	<u>-</u>	<u>757,241</u>
Unreserved fund balance	<u>37,498</u>	<u>95,497</u>	<u>202,121</u>	<u>-</u>	<u>335,116</u>
Total fund balances	<u>391,014</u>	<u>499,222</u>	<u>202,121</u>	<u>-</u>	<u>1,092,357</u>
Total liabilities and fund balances	<u>391,014</u>	<u>499,222</u>	<u>648,813</u>	<u>-</u>	<u>1,539,049</u>

LESLIE COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2007

	SEEK Capital Outlay <u>Fund</u>	Building <u>Fund</u>	Construction <u>Fund</u>	Debt Service <u>Funds</u>	<u>Total</u>
Revenues:					
From local sources:					
General real property tax	-	217,312	-	-	217,312
Interest income	-	-	26,304	-	26,304
Intergovernmental - State	<u>173,900</u>	<u>336,560</u>	<u>-</u>	<u>317,335</u>	<u>827,795</u>
<u>Total revenues</u>	<u>173,900</u>	<u>553,872</u>	<u>26,304</u>	<u>317,335</u>	<u>1,071,411</u>
Expenditures:					
Plant operations and management	56,300	-	-	-	56,300
New building construction	-	-	1,344,183	-	1,344,183
Bond principal	-	-	-	910,423	910,423
Bond interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>207,277</u>	<u>207,277</u>
<u>Total expenditures</u>	<u>56,300</u>	<u>-</u>	<u>1,344,183</u>	<u>1,117,700</u>	<u>2,518,183</u>
Excess (deficit) of revenues over expenditures	<u>117,600</u>	<u>553,872</u>	<u>(1,317,879)</u>	<u>(800,365)</u>	<u>(1,446,772)</u>
Other financing sources (uses):					
Bond proceeds	-	-	1,520,000	-	1,520,000
Operating transfers in	-	-	-	800,365	800,365
Operating transfers out	<u>(117,600)</u>	<u>(458,375)</u>	<u>-</u>	<u>-</u>	<u>(575,975)</u>
<u>Total other financing sources (uses)</u>	<u>(117,600)</u>	<u>(458,375)</u>	<u>1,520,000</u>	<u>800,365</u>	<u>1,744,390</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	95,497	202,121	-	297,618
Fund balance, July 1, 2006	<u>391,014</u>	<u>403,725</u>	<u>-</u>	<u>-</u>	<u>794,739</u>
Fund balance, June 30, 2007	<u>391,014</u>	<u>499,222</u>	<u>202,121</u>	<u>-</u>	<u>1,092,357</u>

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

LESLIE COUNTY HIGH SCHOOL ACTIVITY FUND

For the Year Ended June 30, 2007

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Excess (Deficit) of Revenues over Expenditures</u>	<u>Fund Balance July 1, 2006</u>	<u>Fund Balance June 30, 2007</u>
Academics	1,835	1,652	183	111	294
Art	209	190	19	49	68
Journalism	13,459	4,053	9,406	15,662	25,068
Juniors	3,182	5,119	(1,937)	2,590	653
National Honor Society	325	137	188	184	372
General Fund	29,619	28,885	734	7,750	8,484
Senior Class	10,553	10,926	(373)	459	86
Student Body Government	-	473	(473)	1,102	629
FCCLA	704	747	(43)	504	461
Drama Club	76	247	(171)	680	509
School to Careers	12	330	(318)	746	428
PTO	1,330	-	1,330	-	1,330
Project Sober	5,609	7,689	(2,080)	2,679	599
Extracurricular	82,270	94,956	(12,686)	17,235	4,549
Art School Based					
Enterprise	-	55	(55)	55	-
Food Prep School Based					
Enterprise	-	43	(43)	482	439
Band	879	-	879	-	879
Baseball	8,686	5,622	3,064	-	3,064
Boys Basketball	10,914	9,694	1,220	-	1,220
BB Cheerleaders	2,911	2,006	905	-	905
Football	10,426	7,306	3,120	-	3,120
FB Cheerleaders	911	368	543	-	543
Girls Basketball	12,475	8,057	4,418	-	4,418
Softball	1,946	1,746	200	-	200
Track	3,841	2,291	1,550	-	1,550
Volleyball	2,905	330	2,575	-	2,575
Teacher Vending	1,816	1,154	662	-	662
<u>Sub-total</u>	206,893	194,076	12,817	50,288	63,105
	<u>(28,439)</u>	<u>(28,439)</u>	<u>-</u>	<u>-</u>	<u>-</u>
			<u>-</u>		
<u>Total</u>	<u>178,454</u>	<u>165,637</u>	<u>12,817</u>	<u>50,288</u>	<u>63,105</u>

This fund maintains accounts separate from MUNIS at June 30, 2007.

LESLIE COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE

OTHER SCHOOL ACTIVITY FUNDS

For the Year Ended June 30, 2007

	Big Creek Elementary	Hayes Lewis Elementary	Hyden Elementary
<u>REVENUES:</u>			
Activity funds	5,334	30,363	57,722
<u>EXPENDITURES:</u>			
Activity funds	<u>33,025</u>	<u>18,684</u>	<u>53,522</u>
Excess or (deficiency) of revenues over <u>expenditures</u>	(27,691)	11,679	4,200
Fund Balance, July 1, 2006	<u>27,691</u>	<u>3,484</u>	<u>3,745</u>
Fund Balance, June 30, 2007	<u>-</u>	<u>15,163</u>	<u>7,945</u>

These funds maintain accounts separate from MUNIS at June 30, 2007.

LESLIE COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCEOTHER SCHOOL ACTIVITY FUNDSFor the Year Ended June 30, 2007

<u>Leslie County Middle School</u>	<u>Stinnett Elementary</u>	<u>W.B. Muncy Elementary</u>	<u>Total (Memorandum Only)</u>
47,802	63,356	28,161	232,738
<u>46,905</u>	<u>65,019</u>	<u>27,487</u>	<u>244,642</u>
897	(1,663)	674	(11,904)
<u>8,356</u>	<u>35,127</u>	<u>14,574</u>	<u>92,977</u>
<u><u>9,253</u></u>	<u><u>33,464</u></u>	<u><u>15,248</u></u>	<u><u>81,073</u></u>

These funds maintain accounts separate from MUNIS at June 30, 2007.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDSFor the Year Ended June 30, 2007

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
<u>U. S. Department of Agriculture</u>				
Passed through State Department of Education:				
- Child Nutrition Cluster -				
School Breakfast Program	* 10.553	7760005 06	N/A	43,755
	* 10.553	7760005 07	N/A	157,243
				200,998
School Lunch Program	* 10.555	7750002 06	N/A	104,399
	* 10.555	7750002 07	N/A	348,879
				453,278
Summer Food Service Program for Children	* 10.559	N/A	N/A	8,098
Passed through State Department of Agriculture:				
Food Donation (non cash assistance)	10.550	N/A	N/A	50,094
<u>Total U.S. Department of Agriculture</u>				712,468
<u>U.S. Department of Commerce</u>				
Direct				
(PRIDE) Personal Responsibility in a Desirable Environment	11.420	2707	5,000	10,525
- Environmental Education				
<u>U.S. Department of Justice</u>				
Passed through the Center for Rural Development				
Edward Byrne Memorial State and Local Law Enforcement				
Assistance Discretionary Grants Programs				
U.N.I.T.E.	16.580	3007	54,572	44,200
<u>U. S. Department of Education</u>				
Passed through State Department of Education:				
Comprehensive School Reform	* 84.332	3085R	100,000	10,117
	* 84.332	3086	100,000	88,750
				98,867
Title 1	* 84.010	3106	1,064,150	251,159
	* 84.010	3107	1,054,423	883,946
School Improvement, Part A	* 84.010	3206	8,493	42,084
	* 84.010	3207	28,992	14,906
				1,192,095
Title VI Innovative Program Strategies	84.298A	3345	13,066	4,537
	84.298A	3345	9,382	9,382
				13,919

* - Indicates major programs

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2007

-Special Education Cluster -				
IDEA - B Basic (Special Education Grants to States)	* 84.027	3376	466,100	211,169
	* 84.027	3377	454,866	146,937
				358,106
Special Education - Preschool	* 84.173	3436	26,475	1,596
	* 84.173	3437	26,213	23,295
				24,891
Rural/Low Income School Education Program	84.358	3505	70,500	422
	84.358	3507	56,549	35,194
				35,616
Tech Prep Education	84.243	3637	19,000	14,138
Special Education - Personnel Development	84.323	3337U	30000	9,818
Gear Up	84.334A	3796G	5,870	5,870
	84.334A	3797G	2,836	2,259
				8,129
Improving Teacher Quality State Grants	84.367	4016	250,992	4,218
	84.367	4017	247,185	139,659
				143,877
Title IV - Safe and Drug Free Schools and Communities	84.186	4065	25,221	5,858
	84.186	4066	23,486	2,588
	84.186	4067	17,106	9,253
				17,699
Title II - D Education Technology	84.318X	4255	29,976	195
	84.318X	4256	21,443	8,285
	84.318X	4257	10,574	10,393
				18,873
- Direct -				
Grants for School Based Students Drug Testing	84.184D	5346D	50,000	23,644
	84.184D	5347D	46,000	45,978
				69,622
21st Century Learning Centers	84.287A	5505	140,782	55,133
	84.287A	5506	140,782	22,556
	84.287A	5507	140,782	2,923
				80,612
<u>Total Department of Education</u>				2,086,262
<u>Total Federal Awards Expended</u>				2,853,455

* - Indicates major programs

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2007**NOTE A**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Leslie County School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

NOTE B

Non-monetary assistance is reported in the schedule at the fair value of the food donations disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations.

Chris Gooch

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Hazard, Kentucky 41702
(606) 436-5700

FAX : (606) 436-5701

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

State Committee for School District Audits
Members of Leslie County Board of Education
Hyden, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Leslie County School District as of and for the year ended June 30, 2007, which collectively comprise the Leslie County School District's basic financial statements and have issued our report thereon dated November 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and audit requirement prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Leslie County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not to purpose of expressing an opinion on the effectiveness of the Leslie County School District's internal control over reporting. Accordingly, we do not express an opinion on the effectiveness of the Leslie County School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Leslie County School District's ability to initiate, authorize, record, process, or report financial data reliability in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Leslie County School District's financial statements that is more than inconsequential will not be prevented or detected by the Leslie County School District's internal control. We consider the

deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting noted as reference 2007-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Leslie County School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Leslie County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to management of Leslie County School District, in a separate letter dated November 5, 2007. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract – State Audit Requirements except for the following: Deposits at June 30, 2007 exceeded the bond of depository executed per KRS 160.570(1) and 702KAR 3:090.

We noted certain matters that we reported to management of Leslie County School District, in a separate letter dated November 5, 2007. Leslie County School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Leslie County School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board, management, the Kentucky Department of Education, the Kentucky State Committee for School District Audits and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 5, 2007

Chris Gooch

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

State Committee for School District Audits
Members of Leslie County Board of Education
Hyden, Kentucky

Compliance

We have audited the compliance of Leslie County School District, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Leslie County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Leslie County School District's management. Our responsibility is to express an opinion on Leslie County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Leslie County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Leslie County School District's compliance with those requirements.

In our opinion, Leslie County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Leslie County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Leslie County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Leslie County School District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider material weaknesses, as defined above.

This report is intended solely for the information of and use of Board, management, the Kentucky Department of Education, the Kentucky State Committee for School District Audits and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in blue ink, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 5, 2007

LESLIE COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2007

Findings Related to Financial Statements

NONE

Findings Related to Federal Awards Expended

NONE

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended June 30, 2007- SUMMARY OF AUDIT RESULTS –

1. We have issued an unqualified opinion on the financial statements.
2. Control deficiencies in the internal control were disclosed by the audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No control deficiencies were disclosed by the audit in internal control over major programs.
5. We have issued an unqualified opinion on compliance for major programs.
6. The audit did not disclose any audit findings which we are required to report under Section .510(a) of A-133.
7. Leslie County School District had the following major programs:
 - U. S. Department of Education
 - Passed through State Department of Education
 - Title I, CFDA number 84.010
 - Comprehensive School Reform, CFDA number 84.332
 - Special Education Cluster-
 - IDEA-B Basic, CFDA number 84.027
 - IDEA-B Preschool, CFDA number 84.173
 - U.S. Department of Agriculture
 - Passed through State Department of Education
 - School Nutrition Cluster -
 - School Lunch and Breakfast Program,
 - Summer Food Service Program for Children
 - CFDA numbers 10.553, 10.555 and 10.559
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee qualified as a low-risk auditee.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)For the Year Ended June 30, 2007- FINDINGS RELATED TO THE FINANCIAL STATEMENTS –**2007-01**

Condition:	Cash and other balance sheet annual financial reporting information did not agree to underlying documentation when presented for audit resulting in significant audit adjustments.
Criteria:	End of the year reporting information should be reviewed and reconciled to underlying documentation and differences noted to ensure management awareness for any potential adjusting entries.
Cause:	Management has not established effective monitoring procedures to document differences.
Effect:	The annual financial report may not be accurate or reliable.
Recommendations:	The District should enhance its controls over fiscal year end processing to include review of account balances for all fund types to ensure significant adjustments are entered or provide evidence that establishes knowledge that certain adjusting entries should be made to ensure reliability of the financial statements.
Management's Response:	The District will enhance its controls procedures over fiscal year-end processing to include review of account balances for all fund types to ensure significant adjustments are posted or potential adjustments are acknowledged.

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS –

None

Chris Gooch

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Leslie County Board of Education
Hyden, Kentucky

In planning and performing our audit of the financial statements of Leslie County School District for the year ended June 30, 2007, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operation efficiency. The memorandum that accompanies this letter summarized our comments and suggestions regarding those matters. A separate report dated November 5, 2007, contains our report on reportable conditions and material weaknesses in the District's internal control structure. This letter does not affect our report dated November 5, 2007, on the financial statements of the Leslie County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

A handwritten signature in blue ink, appearing to read "Chris Gooch", with a stylized, cursive script.

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 5, 2007

LESLIE COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2007**Prior Year Comments**

1. Condition: Cash and other balance sheet annual financial reporting information did not agree to underlying documentation.

Criteria: The amounts presented on financial reports should agree to the substantiated underlying documentation.

Cause: Management did not agree underlying documents to financial reports submitted for audit.

Effect: Reports submitted may not be accurate or reliable.

Recommendation: Reports should be agreed to underlying documents and evidence of management oversight should be recognized.

Management's Response: Reports will be agreed to underlying documents and evidence of management oversight will be recognized.

Current Year Auditor's Comment: Reference Item 2007-1, Schedule of Findings and Questioned Costs.
2. Agreeing underlying documents to amount paid.

Condition: Our tests of disbursements at Hyden Elementary activity fund noted one disbursement to Coca-Cola, \$500, paid from a vendor statement rather than itemized receipts. We noted a check written from Hyden Elementary activity fund to Gordon's Food Service for \$898.13. However, the accompanying invoice totaled \$720.86. At W.B. Muncy activity fund check written to Boone Caldwell, \$820, for a library rocking chair, did not have a vendor certification or a receipt. A \$285 W.B. Muncy activity fund check to Sportsworld for academic team t-shirts did not have an invoice.

Criteria: Checks should not be remitted unless adequate supporting documentation is on file.

Cause: Checks were submitted without comparing the supporting documents on file with the amount of check written.

Effect: Disbursements may be made for unauthorized or unallowable purposes.

Recommendation: Before remitting a disbursement check, adequate comparison of underlying support data to the amount written should be performed.

LESLIE COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2007**Prior Year Comments (Continued)**

Management's Response: Management will emphasize comparing the amount to be paid to support documents and ensuring adequate underlying documentation exists.

Current Year Auditor's Comment: We noted adequate evidence of support document for those disbursement checks selected for testing.

3. Paying cash for student meals – extracurricular activities.

Condition: A \$600 Leslie County High School activity fund check written to cash for boys basketball trip expenditures did not list the recipients of the cash proceeds.

Criteria: An itemized listing signed by students should be on file verifying the amounts received for meal money.

Cause: No listing was used to account for the \$600.

Effect: Without evidence to the contrary, the cash could have been used for unauthorized or unallowable purposes.

Recommendation: A cash advance should have a "red book" expense form completed and an itemized listing of cash recipients should be retained.

Management's Response: Management will ensure an expense form is completed and an itemized listing of cash recipients is retained.

Current year Auditor's Comment: We noted evidence supporting disbursement transactions similar to this type for those disbursement checks selected for testing.

4. Payroll authorization documentation.

Condition: When testing a sample of payroll authorization deductions we noted seven employees with incomplete or no I-9 forms, and no salary reduction agreements for eight employees tested.

LESLIE COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2007**Prior Year Comments (Continued)**

Criteria:	The District should maintain complete authorization deductions information. I-9 forms should be on file for all applicable employees.
Cause:	No authorization forms were maintained. Incomplete or no I-9 forms were on file for employees.
Effect:	Incorrect deductions may be charged to an employee's payroll.
Recommendation:	The District should maintain complete authorization deduction information. I-9 forms should be on file for all applicable employees.
Management's Response:	District management will emphasize the importance of having complete and current authorization information on file.
Current year Auditor's Comment:	We noted adequate authorization deduction information and I-9 forms on file, where applicable, for those payroll disbursements selected for testing.

Current Year Auditor Comments

1. Copies of cancelled checks on file

Condition:	The District's bank depository began providing electronic copies of cancelled checks during the fiscal year audited. However, only the front portion was provided.
Criteria:	Front and back copies of cancelled checks be available for monitoring purposes.
Recommendation:	Management should request front and back copies of cancelled checks be available.
Cause:	Management had not requested both the front and back copies of the cancelled checks to accompany their monthly statements.
Effect:	Management can more effectively monitor endorsements for a check disbursement.
Management's Response:	Management requested and began receiving front and back copies of cancelled checks prior to release of the audit report.